Spruced-up variable annuities from Principal Financial Group

By Editorial Staff *Thu, Apr 13, 2017*

The Lifetime Income Solutions II contract offers two income riders, one of which has a 5% simple roll-up. The Pivot contract offers a two-sleeve strategy that calls for periodic transfers from an accumulation account to a deferred income annuity.

Two new variable annuities from Principal Financial Group have been approved by the SEC—Lifetime Income Solutions II and Pivot—and are now available to the investing public through Principal's proprietary distribution channel and through third-party distribution.

With Lifetime Income Solutions II, a refreshed version of a product that Principal had issued for the last ten years, Principal offers two fairly straightforward guaranteed minimum lifetime withdrawal benefits, one of which offers a deferral bonus. One of the two must be elected at purchase.

On this product, Principal practices risk control by reserving the right to reset the fees, the payout rates of the age-bands, and/or the size of the deferral bonus every month, depending on changing interest rates. The product also limits the contract owner's investment options to a handful of Principal funds.

"We issue a monthly supplement in which we declare the fees, the withdrawal rates and the roll-up," said Sara Wiener, assistant vice president of annuities at Principal. "The current rates are 5.25% for a single life contract at age 65, 5.35% at age 70 and 5.5% at age 75. There's an annual simple five percent bonus for the first 15 years of the contract or until the first withdrawal."

The product offers two lifetime withdrawal benefits, the Target Income Protector, which offers the 15-year roll-up, and the Flexible Income Protector, which doesn't.

The second product, the Pivot Series, is a two-sleeve variable annuity that offers conversion to a fixed lifetime income stream. The first sleeve, designed for accumulation, offers investors a wide-range of fund options. The second sleeve, called Deferred Income, contains transfers from the accumulation sleeve to the insurer's general account.

At a date fixed at issue (but which the owner has one opportunity to change), the owner begins receiving annuity payments for life. If owners wish, they can annuitize the entire contract, including both the investment sleeve and the value of the deferred income account.

“This mirrors what we offer on the 401k side, with our Principal Pension Builder,” Wiener told *RIJ*. “We are one of the few retirement providers that offers a deferred income annuity investment option inside a 401(k). This is the same concept: Individuals control their assets, and sweep contributions over into a deferred income annuity that triggers payment at age 65.”

Product details

Lifetime Income Solutions II offers two guaranteed minimum withdrawal benefit options, Target Income Protector and Flexible Income Protector. Only Target Income Protector offers a deferral bonus and its equity investment options are restricted to managed-volatility funds. The Flexible Income Protector offers four equity funds, a balanced fund and a growth fund as well as managed-volatility versions of each.

Because of its deferral bonus, Target costs a little more than Flexible. The rider fee is 125 basis points, versus 105 basis points for Flexible Income Protector. (Principal reserves the right to raise the annual rider fees to as much as 200 basis points). Both riders have mortality and expense risk fees of 125 basis points and investment fees that range between 50 and 65 basis points. There is a return-of-principal death benefit (currently 25 basis points) and a stepped-up value death benefit (currently 35 basis points).

If a contract owner invested $100,000 at age 50 and made no withdrawals for 15 years, the annual single-life payout at age 65 would be at least $175,000 multiplied by 5.25% (at current rates) or $9,187.50 for life. With all-in fees for the Target version of the product at about 300 basis points per year, there would presumably be little chance for step-ups in that payment without a bull market.

The Pivot product, which shares the two-sleeve, deferred income annuity approach with the Guardian ProFreedom and ProStategies variable annuities permits dollar-cost averaging from an accumulation portfolio with many investment options into the deferred annuity portfolio. Income at the annuity date would be calculated based on interest rates at the time of the transfer.

The Deferred Income rider is automatically attached to the contract at issue and has no separate mortality and expense risk fee or investment fee, since the money is in the general account and the fees are embedded in the fixed annuity payout. A one percent annual fee is levied on the value of the accumulation sleeve (85 basis points for the M&E, and a 15 basis point administration fee), the investments cost 50 basis points per year or higher.

There are two additional noteworthy features on this contract. The Liquidity Max feature, priced at 25 basis points per year, allows no surrender-fee withdrawals from the accumulation sleeve during the six-year surrender period (in addition to the 10% free withdrawals).

In another liquidity feature, people who need a lump sum of cash during retirement can use the “Advancement Feature.” It allows for up to six months of annuity payments at once—followed by a period of no payments for six months—during the income period. This lump sum option can be exercised up to four times during the life of the contract, with resumptions of monthly payments between them.